

ADJUSTING THE LENS

Apply a private equity mindset to the Gulf Cooperation Council (GCC) private sector for a stronger, healthier company, with better long-term prospects and a more engaged workforce.

Many companies in the GCC private sector are structured similarly to private equity firms, owned by holding companies or sovereign wealth funds. They – and all of their stakeholders – could benefit from thinking similarly to private equity firms, too, by pursuing a proactive transformation with cash generation as the number one priority. This shift in mindset can help build a stronger future for the GCC private sector and everyone who interacts with it. This article outlines how to get started.

Private equity firms sometimes get a bad rap, criticized as plunderers or – perhaps most memorably – the 'barbarians at the gate.' But in a region where many private sector companies are owned or operated by a holding company, family conglomerate or sovereign wealth fund, there are lessons to be learned from private equity, to both strengthen companies and advance government reform agendas.

Private equity firms adhere to a discipline that could benefit many private sector companies in the GCC. Although they may be influenced by a range of other metrics of a company's success, from operating capacity to long-term revenues, private equity firms' decisions ultimately come down to the bottom line: does this company generate enough cash?

By placing a priority on short-term value creation and cash generation, company owners can take best advantage of the opportunities offered in today's economic landscape, while also establishing stronger foundations for the longer term. A focus on mobilization, business improvements and sustainability can help companies compete and succeed in this evolving – and sometimes challenging – macroeconomic environment.

"A private equity mentality doesn't just benefit the companies adopting it; it also advances regional government agendas, helping cut dependence on subsidies and creating and strengthening national champions. Stronger companies provide better opportunities for workers, in more sustainable positions. Moreover, the success of an organization is directly correlated to better employee morale. A simple change in leadership mindset can build a stronger, healthier company, with better long-term prospects and a more engaged workforce."

GABRIEL CHAHINE

Managing Director and Middle East Local Market Leader

SO HOW TO DO IT?

For a start, owners need to conduct a thorough review of the financial robustness of their operating companies. Where this does not exist, a visible and controllable cash management process needs to be put in place, and organizational incentives restructured to instill a cash culture. Cash flow maximization has two key benefits: it provides sufficient flexibility in day-to-day business, and it can be used as a strategic lever in pursuit of game-changing acquisitions.

With the right financial structures in place, owners need to take a closer look at governance and reporting structures, to really understand the value of their assets. What is the process for hiring and developing top talent? Could that process be improved? Are all the roles in the organization clearly delineated? Are any missing? Is there enough transparency in the organization? Are all departments working towards the same ultimate goals? Is there clear ownership of corporate priorities across the executive team?

Asking these questions, and addressing any 'nos', will help shift owners and companies towards a more results-oriented mindset, underpinned by strong structures and processes consistently implemented. Ultimately, the most important indicator of success is whether the individual responsible for each asset – or each company – is incentivized to create enterprise value. He or she must be able to focus not only on increasing shareholder value but also on maximizing value for all stakeholders. This is the core tenet of the private equity mindset, and the most valuable lesson for the GCC private sector.

ALIXPARTNERS' PROACTIVE TRANSFORMATION APPROACH

A results-oriented mindset is at the heart of the comprehensive, fast and execution-oriented approach we at AlixPartners call a proactive turnaround. Help employees understand – and get on board with – the rationale for measures that cut costs. Explain to suppliers that the company is entering a significant growth phase, and negotiate for the best prices with that in mind. Engage every stakeholder in the company's purpose and mission.

We can help implement these strategies, but the first step needs to come from the owners. A simple shift in mindset can help build a stronger future for the GCC private sector, and everyone who interacts with it, from government agencies to individual consumers.

THE PROACTIVE TRANSFORMATION APPROACH PROVIDES 3 KEY DIFFERENTIATORS VERSUS THE TRADITIONAL APPROACHES THAT COMPANIES FOLLOW TODAY

1

PROACTIVE DECISION

An explicit and proactive decision to heavily lift a business and change the trajectory sustainably. It is also an approach that needs courage and willingness to; achieve a rapid improvement and to free up funds for investment. Being execution-oriented, disruption needs to be carefully managed.

2

HOLISTIC APPROACH

This is an approach that questions everything a company does cut to the necessary basic, looks at P&L, balance sheet and cash flow and is visible and 100%-tied to the financials.

3

ADDRESSES THE NEEDS OF ALL STAKEHOLDERS

Proactive Transformation focuses not only on shareholder value but on stakeholder value maximization and guarantees mitigation of all challenges along the entire program.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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